United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, DC 20240

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Memorandum

To: Associate Director for Policy and Management Improvement
Associate Director for Royalty Management

From: Carolita Kallaur Carolita U. Kallaur
Acting Deputy Director

Subject: Interpretation -- Dual Accounting for Gas Sold Under Percentage-of-Proceeds (POP) Contracts [Issue 1995-1]

The Royalty Policy Board met on May 24, 1995, to address issues related to dual accounting on POP contracts. The issues are as follows:

1. What method should MMS use to determine the wellhead value of gas sold under POP contracts for purposes of any accounting for comparison (as required for most Indian leases and under Title 30 CFR § 206.155 for non-arm's-length POP contracts for FederaI leases)?

2. What method should MMS use to determine the processing allowance for arm's-length POP contracts for purposes of accounting for comparison (as required on. most Indian leases)?

The following applies to dual accounting on POP contracts for the above issues:

Issue 1: For non-arm's-length POP contracts involving Federal leases for all time periods, use comparable arm's-length contracts (either other POP contracts in the same field or area, other wellhead casinghead contracts in the area or other relevant information) to establish wellhead value when performing accounting for comparison.

For arm's-length POP contracts involving Indian leases, the wellhead value for purposes of performing accounting for comparison will be based on the higher of the highest price paid for a major portion[1] of production in the field or area,

[1]"Major portion" in this usage means the same as major portion as currently being calculated by the Royalty Management Program, i.e., the price at which 50 percent plus 1 Mcf of gas is sold based on sales of all gas in the field, area, or reservation for which data are available.

or the lessee's proceeds under its POP contract. For non-arm's-length POP contracts involving Indian leases, the wellhead value for purposes of performing accounting for comparison will be based on the higher of a benchmark value determined under the regulations, the highest price paid for a major portion of production in the field or area, or the lessee's proceeds under its POP contract.

The Btu adjustment method involving straight line pro rata extrapolation from the value of the residue gas will not be used in determining wellhead value in cases of POP contracts involving dual accounting. This interpretation does not preclude an appropriate Btu adjustment in cases where such an adjustment may be required by rule.

Issue 2: For arm's-length POP contracts, use the lessee's actual costs under its POP contract as the processing cost in cases where accounting for comparison is required for POP contracts not to exceed two-thirds of the value of the gas plant products without prior approval from MMS/Tribe.